

Syllabus  
FIN 439: Seminar in Financial Derivatives

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Dr. Steve Henry  
Office: SHB 200L  
Phone: 936-294-1285  
shenry@shsu.edu

Fall 2007

Office Hrs: 11:00-12:00,  
1:00-3:30 T-Th,  
10:00-12:00 F  
or by appointment

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Textbook: *Fundamentals of Futures and Options Markets* (6<sup>th</sup> edition) by John C. Hull  
(Prentice Hall)

Website: Course announcements, lecture materials and grades will be available on the SHSU Blackboard information system (<http://blackboard.shsu.edu>). Please make sure that you are able to access the Blackboard system, since important class announcements will be posted there.

Description: “A study of options, futures, and other financial derivative contracts. The course includes the markets, valuation, and specification of these derivative contracts, and their use in corporate financial risk management.”

Objectives: The course is intended to give students an understanding of futures, options, and other derivative securities, their role in hedging, speculation, and financial risk management, and the markets in which they are traded. Special emphasis is placed on understanding the valuation methods appropriate for such securities. Some specific objectives for the semester include:

- Understand the nature of forward and futures contracts, why they are used, and the markets in which they are traded
- Understand the basics of pricing forwards and futures
- Understand the nature of option contracts, the various types that exist, and the markets in which they are traded
- Understand the basics of option valuation, including:
  - Boundaries within which options must be valued
  - The binomial approach to valuing options
  - Applying the Black-Scholes formula to compute option values
- Develop an understanding of various option trading strategies and combinations
- Understand how options, futures, and forwards are used for financial risk management.

Prerequisites: FIN 367

Exams: There will be three in-class exams and a comprehensive final, each worth 100 points. I will drop the lowest exam grade, resulting in a maximum of 300 points possible. Exams will consist of both quantitative problems and factual questions in a variety of formats. You may bring ONE PAGE (8.5”x11”) of notes and formulas for reference during exams.

**Problem sets:** You are expected to read the relevant chapter prior to class. When appropriate, problems from the textbook will be suggested for further study. These will not be formally graded, but you should be prepared to discuss them during the next class. In addition, problem sets will be assigned periodically, contributing 20% to your course grade. The problem sets will be administered primarily online (via Blackboard), but your instructor reserves the right to assign in-class exercises and old-fashioned paper homework when appropriate.

**Projects:** You will be required to complete two computer-based projects using Microsoft Excel, and one or more online data sources. Grades will be based on both the content and the overall presentation of the work. Just as in the corporate environment, “neatness counts.” **Assignment due dates should be considered firm. Projects handed in late will incur a penalty of 15% per day.** You are encouraged to discuss the projects with other class members; however, you are responsible for turning in your own assignments. I.E., simply making copies of a classmate's spreadsheet file, in whole or in part, is unacceptable.

**Calculators:** You will need a scientific or business calculator for exams. At a minimum, your calculator must be capable of evaluating arbitrary exponents and computing natural logarithms. Unlike most Finance classes, here you will find little use for the NPV/IRR functions of more sophisticated financial calculators.

NOTES: (1) While I'm willing to help with calculator issues, I am not familiar with the operation of all available calculator models. Ultimately, *you* are responsible for learning how to use *your* calculator to solve the problems on the exams... so don't throw away the manual! (If you already did, you can probably find a copy on the manufacturer's website.) (2) Higher-capacity computing devices such as PDAs and notebook computers may not be used during exams. (3) Students may not share a calculator during exams...please remember to bring your calculator to class, and always check the batteries prior to exams!

**Attendance:** Regular attendance of lectures is vital to understanding, integrating, and applying the concepts discussed in class. Attendance will be checked in accordance with university policy. **No makeup exams will be given.** While in class, it's important that your attention is focused on the subject matter at hand; you may not read any unrelated material or engage in communication not relevant to the content of this course. Anyone in violation of this rule (or otherwise disrupting the class) may be asked to leave the classroom, and will be counted as absent for the day. Also: as a courtesy to others in the class, please make an effort to **silence cell phones and pagers** while class is in session.

**Extra Credit:** Students will have the opportunity to earn extra credit (up to 30 points, or 6% of the overall grade) by participating in the class discussion forum on Blackboard. Check Blackboard for details.

**Grading:** Based on a point system, with a total of 500 points possible:

- 300 points - Exams
- 100 points - Spreadsheet Projects
- 100 points - Problem Sets

Letter grades will be assigned according to the usual 90/80/70%... scale: 450 points or more = "A", 400-449 = "B", 350-399 = "C", 300-349 = "D"

**Academic Honesty** "The university expects all students to engage in all academic pursuits in a manner that is above reproach. Students are expected to maintain complete honesty and integrity in the academic experiences both in and out of the classroom. Any student found guilty of dishonesty in any phase of academic work will be subject to disciplinary action."  
(<http://www.shsu.edu/students/guide/dean/codeofconduct.html> )

The SHSU policy on academic honesty is very clear, and needs no further explanation. Nevertheless, it's worth pointing out that *either* (a) submitting anything other than your own original work, or (b) allowing your own work to be submitted by another student will be considered academic misconduct. **Any student found to have been involved in academic dishonesty, as defined by SHSU Academic Policy Statement 810213, will receive a course grade of F**, and possible referral to the Dean of Student Life for further disciplinary action.

SHSU adheres to all applicable federal, state, and local laws, regulations, and guidelines with respect to providing reasonable accommodations for students with disabilities. If you have a disability that may affect adversely your work in this class, then I encourage you to register with the SHSU Counseling Center and to talk to me about how I can best help you. All disclosures of disabilities will be kept strictly confidential. NOTE: no accommodation can be made until you register with the Counseling Center.

### **Student Absences on Religious Holy Days Policy**

Section 51.911(b) of the Texas Education Code requires that an institution of higher education excuse a student from attending classes or other required activities, including examinations, for the observance of a religious holy day, including travel for that purpose. A student whose absence is excused under this subsection may not be penalized for that absence and shall be allowed to take an examination or complete an assignment from which the student is excused within a reasonable time after the absence.

University policy 861001 provides the procedures to be followed by the student and instructor. A student desiring to absent himself/herself from a scheduled class in order to observe (a) religious holy day(s) shall present to each instructor involved a written statement concerning the religious holy day(s). This request must be made in the first fifteen days of the semester or the first seven days of a summer session in which the absence will occur. The instructor will complete a form notifying the student of a reasonable timeframe in which the missed assignments and/or examinations are to be completed.